DISTIL
BEVERAGES

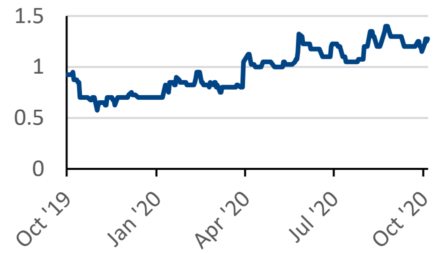
16 October 2020

DIS.L

1.28p

Market Cap: £6.4m

SHARE PRICE (p)



12m high/low	1.4p/0.6p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£0.6m *(at 30/09/20)*
Enterprise value	£5.8m
Index/market	AIM
Next news	Q3 update, Jan '21
Shares in Issue (m)	502.0
Executive Chairman	Don Goulding
Finance Director	Shaun Claydon

COMPANY DESCRIPTION

Distil develops and markets internationally drinks brands, including RedLeg Spiced Rum and Blackwoods Vintage Gins.

www.distil.uk.com

DISTIL IS A RESEARCH CLIENT OF PROGRESSIVE

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Showing strength in testing times….

….and investing for the future

Distil has reported an impressive H1 performance against a backdrop of volatility and other challenges resulting from the Covid pandemic. The company has delivered a profit before tax of £154K compared with last year's breakeven position, driven by a sales increase of 128% to £1.9m. The period saw new product launches within the leading RedLeg brand, with more new lines to follow. Distil has increased headcount in both marketing and New Product Development (NPD) to support its future growth. Despite the success achieved in H1, considerable short-term uncertainty remains around the impact of the emerging second wave of Covid and consequent restrictions. The company therefore feels it is prudent not to provide guidance at this stage on the outturn for the full FY21 financial year.

- **Interim results:** Turnover rose by 128% in the period, led by a 139% increase from RedLeg Rum and a 74% increase from Blackwoods Gin sales. Marketing investment increased as a percentage of sales to support brand growth and awareness, with Distil also deciding to increase its NPD investment threefold. Despite these investments and a primarily Covid-driven increase in production costs leading to a reduced gross margin, profit of £154K was delivered against last year's breakeven performance. Cash reserves at the period end stood at £570K (£836K last year), reflecting an increase in receivables as sales rose toward the period end.

- **Investing for the future:** Brand marketing and promotion rose 158% in the period, representing 30% (27%) of sales, with an increased headcount. Headcount has also increased in NPD to support the introduction of range extensions and other brands. The period saw the introduction of RedLeg Banana Rum, the third variant of RedLeg, and launch of a ready-to-drink canned mix of RedLeg Pineapple Rum with Franklin & Sons Ginger Ale.

- **Living in uncertain times:** Distil has adapted well and flexibly to the challenges to both its customers and staff in these testing times. Demand has shifted across channels in response to Covid restrictions, with further channel shift likely as second wave restrictions are imposed into the peak trading period. Management believes the company will exit 2020 in a stronger position, but with the impact on consumers, retailers and the hospitality sector impossible to quantify, caution is prudent at this stage. The company is therefore providing no full year guidance for FY21.

FYE MAR (£M)	2018	2019	2020
Revenue	2.01	2.40	2.44
Adj EBITDA	0.16	0.17	0.25
Fully Adj PBT	0.16	0.16	0.18
Fully Adj EPS (p)	0.03	0.03	0.05
EV/Sales (x)	2.9x	2.4x	2.4x
EV/EBITDA (x)	35.7x	34.5x	23.7x
PER (x)	40.4x	39.8x	24.8x

Source: Company Information and Progressive Equity Research estimates

A strong first half performance…..

….with increased investment in marketing and NPD

Distil has delivered a very strong H1 performance against a difficult backdrop and a period last year adversely impacted by the extended implications of Brexit deadlines. Sales revenue growth of 128% is the combination of UK growth of 121% and export sales growth of 165%. Sales in this period were £714K higher than those delivered two years ago in H1FY19, equating to a 61% increase and a two-year compound growth rate of 27%.

RedLeg has continued to deliver market share growth in the flavoured rum sector, with Nielsen data suggesting 35% sales growth in the 26 weeks to September, compared with RedLeg H1 sales growth of 139%. Blackwoods Gin also showed very good growth with a 74% sales increase, while Blavod Vodka unsurprisingly fell - by70% - given its reliance on sales through Duty Free and Travel Retail, which were significantly impacted by broader travel restrictions on consumers. Data suggests the duty free market fell by between 60% - 80% in Blavod's key Eastern European markets.

Within the UK, there has been significant channel shift from the broader hospitality sector (restaurants, hotels,pubs, etc) to the retail sector, with grocery stores remaining open throughout even the lockdown period. Consumer drinking patterns have shifted very much to the home environment. Distil has managed this demand scenario well, with a volume increase of 87% in the period.

Covid protection measures have also had a knock-on effect in other areas of manufacturing and the supply chain, with the introduction of social distancing measures resulting in lower levels of output and productivity. Within these results, this was most evident in the gross margin line, which saw a year-on-year decrease of 570bps to 54.9%. This should hopefully prove to be a short-term impact, subsiding once better mitigation measures to Covid have been introduced.

Distil has not only steadfastly stuck with its principles of brand promotion and NPD but has also actually increased its efforts and investments in both areas. Headcount has been increased, with a threefold increase in its NPD investment and a 158% increase in brand marketing. Distil has initiated a partnership with a Master Distiller to help with development of new liquids and flavours. These increased investments and commitments underline the company's confidence in both its existing brand portfolio and its plans for future developments. We have for example yet to hear of potential product developments under the Mardi Gras brand name, for which the company has secured the trademark in both Europe and the US.

Interim results analysis

Distil's headline interim results are summarised in the table below.

FY21 interim results – P&L account summary

(£'000 unless stated)	H1 FY20	H1 FY21	Change	% change
Turnover	824	1,878	1,054	128%
Gross profit	499	1031	532	107%
Gross margin (%)	60.6%	54.9%	-5.7%	
Advertising and promotion	-219	-565	-346	158%
Other administrative costs	-248	-300	-52	21%
Depreciation and amortisation	-31	-7	24	-77%
Other costs	0	-5	-5	n.a.
Total operating costs	-498	-877	-379	76%
Operating profit/(loss)	1	154	153	15300%
Finance charge	-2	0	2	n.a.
Pre-exceptional profit/(loss) before tax	-1	154	155	15400%
Exceptional charge	0	0	0	n.c.
Reported loss before tax	-1	154	155	15400%
Operating costs to sales ratio	-60.4%	-46.7%	13.7%	
Operating margin (%)	0.1%	8.2%	8.1%	

Source: Distil; Progressive Equity Research

We have summarised and detailed many of the key elements of Distil's H1 performance above, most notably around turnover and profit measures, including gross margin. Given this, we shall focus commentary around operating costs. We would, however, additionally highlight that the impressive 8.2% operating margin was achieved after, and despite, the 570bps adverse impact at the gross margin level. Excluding this impact, Distil would have achieved a double-digit operating margin.

Total operating cost growth lagged turnover growth with an increase of 76% to £877K. The largest component of aggregate costs and cost growth was advertising and promotion (including NPD), which has been discussed above. Other administrative costs rose by 10% to £307K in total, though our table disaggregates these to show the depreciation and amortisation charge. This charge fell by £24K compared with last year, with other administrative costs rising by 21% to £300K. The overall administrative cost increase of 10% shows a commendable continuation of the company's diligent management of its cost base in our view. The period also saw a £5K share based payment expense.

The following table looks at the contribution and margin performance during the period.

Contribution and margin performance – H1 FY21

(£'000 unless otherwise stated)	H1 FY20	H1 FY21	Change	% change
Turnover	824	1,878	1,054	128%
Gross profit	499	1,031	532	107%
Gross margin (%)	60.6%	54.9%	-5.7%	
Advertising and promotion	-219	-565	-346	158%
Contribution	280	466	186	66%
Contribution margin (%)	34.0%	24.8%	-9.2%	
Advertising to sales ratio (%)	-26.6%	-30.1%	-3.5%	

Source: Distil; Progressive Equity Research

As outlined above, the advertising to sales ratio increased by 350bps in the period to just over 30%. Combined with the adverse gross margin movement, this resulted in a 9.2% reduction in the contribution margin to 24.8%. Most importantly however, the cash contribution increased by 66% (£186K) to £466K.

There was a net decrease in cash and cash equivalents in the half of £288K, driven primarily by a £778K increase in trade receivables year-on-year towards the end of the period. This left the period end cash figure standing at £570K, though we would imagine this has improved since then as debtors have been monetised (as also occurred in April and highlighted in the FY20 prelims). Net assets showed a year-on-year increase of £480K to reach £3,653K (from £3,430K at 31 March 2020).

Next newsflow

The next newsflow will be a Q3 trading update in January 2021.

Financial Summary: Distil

Year end: March (£m unless shown)

PROFIT & LOSS	**2018**	**2019**	**2020**
Revenue	2.01	2.40	2.44
Adj EBITDA	0.16	0.17	0.25
Adj EBIT	0.16	0.16	0.18
Reported PBT	0.16	0.16	0.18
Fully Adj PBT	0.16	0.16	0.18
NOPAT	0.16	0.16	0.26
Reported EPS (p)	0.03	0.03	0.05
Fully Adj EPS (p)	0.03	0.03	0.05
Dividend per share (p)	0.00	0.00	0.00
CASH FLOW & BALANCE SHEET	**2018**	**2019**	**2020**
Operating cash flow	0.17	0.09	(0.10)
Free Cash flow	0.13	0.04	(0.14)
FCF per share (p)	0.03	0.01	(0.03)
Acquisitions	(0.02)	(0.01)	(0.02)
Disposals	0.00	0.00	0.00
Shares issued	0.01	0.00	0.00
Net cash flow	0.12	0.04	(0.21)
Overdrafts / borrowings	0.00	0.00	0.00
Cash & equivalents	1.03	1.07	0.86
Net (Debt)/Cash	1.03	1.07	0.86
NAV AND RETURNS	**2018**	**2019**	**2020**
Net asset value	3.01	3.17	3.43
NAV/share (p)	0.60	0.64	0.68
Net Tangible Asset Value	1.46	1.62	1.86
NTAV/share (p)	0.29	0.32	0.37
Average equity	2.91	3.09	3.30
Post-tax ROE (%)	5.4%	5.2%	7.8%
METRICS	**2018**	**2019**	**2020**
Revenue growth	22.6%	19.2%	1.7%
Adj EBITDA growth	1097.6%	3.4%	45.6%
Adj EBIT growth	1531.8%	1.6%	15.0%
Adj PBT growth	1531.8%	1.6%	13.7%
Adj EPS growth	1531.8%	1.6%	60.4%
Dividend growth	N/A	N/A	N/A
Adj EBIT margins	7.8%	6.7%	7.5%
VALUATION	**2018**	**2019**	**2020**
EV/Sales (x)	2.9	2.4	2.4
EV/EBITDA (x)	35.7	34.5	23.7
EV/NOPAT (x)	37.0	36.4	22.4
PER (x)	40.4	39.8	24.8
Dividend yield	N/A	N/A	N/A
FCF yield	2.0%	0.7%	(2.1%)

Source: Company information and Progressive Equity Research estimates

Progressive EQUITY RESEARCH

16 October 2020

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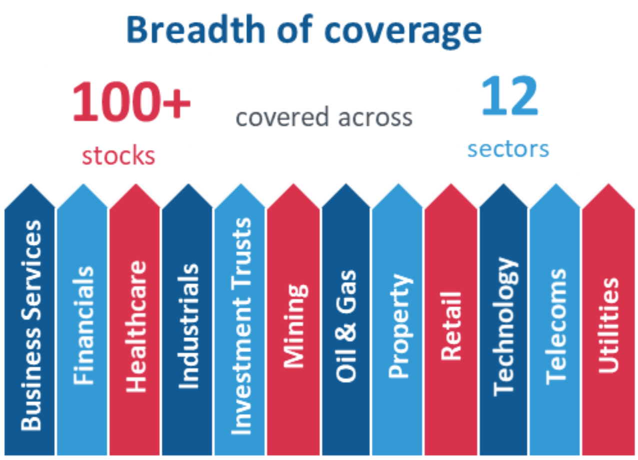

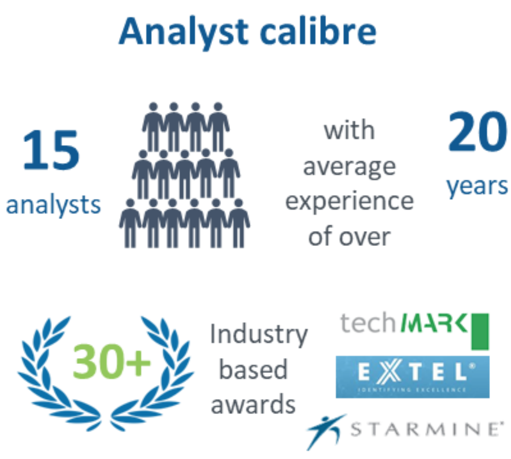

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